



STATE OF ARIZONA

April 13, 2011

JANICE K. BREWER
GOVERNOR

EXECUTIVE OFFICE

The Honorable Russell Pearce
President
Arizona State Senate
1700 West Washington Street
Phoenix, Arizona 85007

Re: Senate Bill 1552 (corporate tax allocation; sales factor)

Dear President Pearce:

Today I vetoed Senate Bill 1552. While we need to reform the application of our state corporate income tax for sales of services and other intangible products, one of my chief concerns with Senate Bill 1552 is the quick timetable for implementing this goal. The bill takes effect for corporate income earned after December 31 of this year. The Arizona Department of Revenue estimates the bill would reduce corporate tax liabilities to the State by approximately \$33 million annually. Given our current fiscal condition, we cannot afford this accelerated implementation schedule.

My concern about the immediate implementation of structural tax cuts for business is well-known. In January, I stated in my policy agenda (The Four Cornerstones of Reform) that "we need to phase-in reforms to our tax structure" and went on to caution that in reforming our tax structure we need to pay "careful attention to these reforms' immediate impacts on the General Fund." The principle of phasing-in structural tax reforms to avoid immediate impacts of these reforms to the State General Fund is based on the premise that our employers need a fiscally stable environment in which to create jobs. For example, I believe that employer uncertainty about the inevitable resolution of the federal budget deficit is holding back job creation. In addition to this need for state fiscal stability, we must use the Proposition 100 sales tax monies for education, public safety and our most needy and not structural tax reform.

Earlier this year, we passed the historic Arizona Economic Competitiveness Package that enacted important structural tax reforms that were both phased-in and paid careful attention to immediate impacts on the State General Fund. These phased-in tax cuts (starting in 2014)

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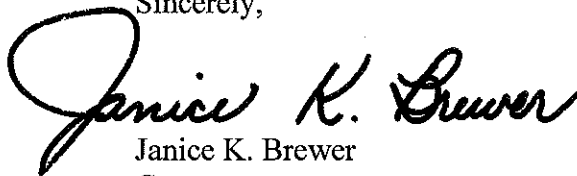
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included reducing the corporate income tax rate to just below 5%, reducing business property taxes which discourage capital investment, and increasing from 80% to 100% the sales factor in calculating corporate income taxes on the sales of goods. In contrast, Senate Bill 1552 cuts corporate income taxes on services and other intangible products immediately at the end of this year. I don't believe it is fair to allow one industry to "jump the line" in front of other industries in seeking this specific structural tax reform in Senate Bill 1552.

Any statements that the Department of Revenue won't address legitimate issues of double or multiple taxation on out-of-state sales are simply not true. The Department has historically been willing to work with corporations in Arizona to address these types of issues. In addition, my office has been involved in multiple meetings on these same issues.

Arizona's tax code needs to be more competitive with other states for the ever-growing internet-related and on-line educational industries. I look forward to continuing discussions with the backers of Senate Bill 1552 on how and when to implement structural tax reform in this area with an eye to introducing a consensus bill in the next legislative session.

Sincerely,

A handwritten signature in black ink that reads "Janice K. Brewer". The signature is fluid and cursive, with the first name "Janice" being the most prominent part.

Janice K. Brewer
Governor

cc: The Honorable Kirk Adams
The Honorable Rick Murphy